

COMMUNITY LENDING PLAN 2004
PRODUCTS, SERVICES AND HOUSING COMMITTEE
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Prepared by: Matthew Hawkins, Public Interest Investment Banker
Federal Home Loan Bank of Seattle
Community Investments

BACKGROUND

In November 1998, the Federal Housing Finance Board approved a regulation (12 CFR 952.1) establishing Community Investment Cash Advance (CICA) programs. This regulation obligates each Federal Home Loan Bank in the system to develop an annual Community Lending Plan for approval by the Board of Directors. In order to successfully develop this plan in compliance with the regulation, the Bank is required to:

- Conduct market research in the Bank's district;
- Describe how the Bank will address identified community lending credit needs and market opportunities in the Bank's district;
- Consult with its Advisory Council and with members, nonmember borrowers, and public and private economic development organizations in the Bank's district in developing and implementing its Community Lending Plan; and
- Establish quantitative community lending performance goals.

The Community Lending Plan 2004 for the Seattle Bank will be reviewed by the Affordable Housing Advisory Council in November 2003 prior to action by the Products and Services Committee, and will be submitted to the Federal Housing Finance Board by December 2003.

THE FEDERAL HOME LOAN BANK OF SEATTLE

As of November 1, 2003, the Seattle Bank had \$49 billion in assets, 378 stockholder customers and six approved housing affiliates. The Bank's market includes eight states (Alaska, Hawaii, Idaho, Montana, Oregon, Utah, Washington and Wyoming), the Mariana Islands and the Territories of Guam and American Samoa. This region is home to one-third of the Native American reservations in the United States, as well as encompassing Alaska Natives, Native Hawaiians, and the native peoples of the western Pacific Islands.

The Seattle Bank offers a variety of community-investment products in addition to advances, letters of credit, a mortgage purchase program and other financial products and services for community lenders serving this diverse region. The community investment products available to the bank's financial institution customers include:

GRANT PROGRAMS

The Affordable Housing Program (AHP) is a competitive grant program that provides funding for the capital costs associated with affordable housing development. As of November 1, 2003, \$114 million in grants had been committed to assist 26,443 low-income households. Home\$tart and Home\$tart

Plus (H\$P) are a 35% set aside from the AHP that provide non-competitive grants for low- and moderate-income, first-time homebuyers. As of November 1, 2003, H\$P has provided \$25 million to help 5,214 families.

The Affordable Housing Program Implementation Plan details how the AHP and H\$P are administered. The plan is reviewed by the Bank's Affordable Housing Advisory Council and approved by the Board of Directors every year.

RECOVERABLE GRANT PROGRAMS

The Challenge Fund is a \$1.2 million recoverable competitive grant program for predevelopment costs associated with affordable housing development. A total of \$1.9 million in Challenge Fund commitments have been made as of November 1, 2003, helping more than 4,500 families, primarily in smaller rural communities. As of November 1, 2003, 19 percent of the Challenge Fund awards have been forgiven because during predevelopment, it was determined that the proposed housing was not feasible.

Access is a recoverable grant program for predevelopment costs associated with community-based economic development and was created by the Board in 2000. For the first four years of the program, the Board has set-aside \$200,000 per year. As of November 1, 2003, 18 projects have been funded in each of the 12th District's eight states. Of the \$720,000 committed to date, \$35,000 was recaptured and \$55,940 (8%) has been forgiven because during predevelopment, it was determined that the proposed project was not feasible. In mid-2002, the Affordable Housing Advisory Council requested that the Bank research using Access to fund loan loss reserves to facilitate investments in Community Development Financial Intermediaries (CDFIs) and other financial intermediaries. We have initiated or are in the process of initiating seven loan loss reserves for a total of \$405,000.

ADVANCE PROGRAMS

The Community Investment Program and the Economic Development Fund (CIP/EDF) comprise a \$1.0 billion revolving advance pool for affordable housing and economic development that benefits low and moderate-income individuals and neighborhoods. Since 1990, the Seattle Bank has made \$2.2 billion in housing related CIP/EDF advances and \$641 million in community-based economic development CIP/EDF advances. All of these advances have been made at the Bank's cost of funds. Through the CIP/EDF, the Seattle Bank also offers discounted prices on its letters of credit and forward rate locks for qualifying projects.

The Smart Growth Fund is a \$10 million pool of CIP/EDF advances priced at rates below the Bank's cost of funds to support specific community development partnerships. The criteria for selecting partnerships that may access the Smart Growth Fund include: a) the projects must have a demonstrated community impact on affordable housing and/or economic development; b) the partnership must create viable, low-risk, CRA lending opportunities for members; and c) the partnership must support the bank's outreach to national or regional foundations or other agencies.

Currently, the Seattle Bank is working with The Enterprise Foundation to use the Smart Growth Fund to provide low-cost land financing in Portland, Oregon and Salt Lake City, Utah.

MORTGAGE PURCHASE PROGRAMS

With the advent of the Bank's Mortgage Purchase Program (MPP), Community Investments has begun exploring ways to focus this resource on addressing specific community lending needs. Specific initiatives combining MPP and community investment products include:

- *Pathways* - A partnership with public housing authorities to create homeownership opportunities for low-income and minority households. Through Pathways, a housing authority can purchase a number of single-family homes using FHA-insured mortgages, which are then sold to the Seattle Bank. The housing authority leases the homes to low-income families until those families are credit eligible to assume the mortgage. The first partnership with the Spokane Housing Authority and Sterling Savings Bank has resulted in the purchase of 12 mortgages so far with another 48 expected to be purchased in the next two years.
- *Title VI Loan Purchase Program* – A partnership with tribally designated housing entities. The Seattle Bank has been approved to purchase up to \$100 million in customer loans to tribes for affordable housing that are guaranteed by Title VI of NAHASDA. The Bank's first deal, a \$500,000 loan by Wells Fargo Bank AK, closed this year with a second deal for \$1.5 million expected to close in early 2004. Because of the Seattle Bank's investment in the first loan, Wells Fargo was able to offer an Alaskan native village a loan rate approximately 200 basis points below market.
- *A Home Of Your Own/Portland* - This initiative is the first project resulting from a cooperative working agreement between the Seattle Bank and The Enterprise Foundation. Under this program, the Seattle Bank provided \$1 million in down payment assistance and plans to purchase up to 100 mortgage loans to low-income, minority, displaced and disabled homebuyers in the city of Portland, Oregon by December 2004. In addition, the Seattle Bank provided a \$20,000 grant to the Portland Housing Center to support their homebuyer education efforts, and created a \$50,000 loan loss reserve for their second lien mortgage loan fund. The Bank will partner with the Housing Authority of Portland, the Portland Housing Center, and local non-profits and member banks for this program.

OTHER PROGRAMS

The Seattle Bank was approved by the Federal Housing Finance Board during the first quarter of 2003 to act as a liquidity facility for the Utah Housing Corporation. This agreement, which was executed during the first quarter of 2003, will enhance the issuance of \$200 million in variable rate bonds to create homeownership opportunities for low-and moderate-income homebuyers throughout the state of Utah.

COMMUNITY GOALS - 2003

The goals for 2003 and the results as of September 30, 2003, are described below.

QUANTITATIVE GOALS AND RESULTS

- Fund at least 20 new community-based economic development projects with CIP/EDF. *We funded 15 projects in 6 states that totaled \$31 million. The shortfall is primarily the result of the change to the CIP/EDF program this year and the significant amount of liquidity most of our customers experienced this year. The CIP/EDF changes include an increase in the minimum term to five years and a decrease in the subsidy from 20 bps to 10 bps, which was the result of the new capital plan that lowered the cost of funds to members.*
- Fund at least \$100 million in new affordable multifamily rental projects with the Community Investment Program. *We funded 19 projects in 5 states that totaled \$23 million in new advances. Similar to economic development projects, the shortfall is primarily the result of the change to the CIP/EDF program this year and the significant amount of liquidity most of our customers experienced this year. The CIP/EDF changes include an increase in the minimum term to five years and a decrease in the subsidy from 20 bps to 10 bps, which was the result of the new capital plan that lowered the cost of funds to members.*
- Increase the dollars invested in Access program by \$200,000 and commit all of the funds to qualified economic development projects. *The Board approved an additional \$200,000 for Access and the Bank has committed \$160,000 as of November 1, 2003. Two additional projects are under consideration, and if funded they will increase the total commitments for 2003 to \$200,000.*
- Hold nine seminars on accessing the bank's community investment resources. *Eight seminars were conducted between February 15 and March 7, 2003. A seminar in Montana was canceled due to low registration.*
- Complete web-based compliance seminars for successful AHP applicants in January and July. *Seven web-based compliance seminars were provided since January 1, 2003.*
- Increase the dollars invested in Challenge Fund by \$100,000. *The board approved \$100,000 for Challenge Fund, all of which will be committed for applications submitted in 2003.*

QUALITATIVE GOALS AND RESULTS

- Implement phase 3 of the on-line AHP application. *Further refinement of AHP online was completed and implemented on September 1, 2003.*
- Implement the collection of data on ethnicity in the Home\$tart and Home\$tart Plus programs. *Research was conducted during 3rd and 4th quarters by general counsel to determine if any legal barriers exist to gathering this information. As of November 1, the research is still pending, but preliminary results are encouraging. A decision about how to collect the data will be made by the end of the year.*
- Initiate discussions for implementing the Challenge Fund program on-line. *Discussions were held with ISS staff to determine the feasibility of implementing an online Challenge Fund. Extensive commitment of ISS staff time would be required. This will be deferred as other database modifications were determined to be of higher priority.*

- Hire an additional compliance analyst and a program/policy staff person. *Compliance Analyst and Sr. Program Administrator added to staff during 2003.*
- Implement the Home\$tart cap of 35 percent if approved by the Council and the Board. *35% of AHP funds were reserved for H\$P for 2003. Reservation will continue at this level unless modified by a future decision of Council and Board.*
- Contribute to development of AHP regulations. *Proposed rule expected early in 2003 has been deferred to later in the year. Seattle Bank will respond as soon as it is published.*
- Continue to implement the following programs that were successfully developed in 2002:
 - Pathways. Our initial Pathways deal was with the Spokane Housing Authority and one of our members. During 2003, this partnership resulted in 12 low-income households becoming first-time homebuyers and the Seattle Bank purchasing the mortgages.
 - Title VI. We purchased our first Title VI loan for \$500,000 and decreased the borrower's interest rate by 200 bps. In addition, we expect to purchase a second loan for \$1.55 million later this year or early 2004.
 - A Home of Your Own. One of our partners is providing homebuyer education and referring potential homebuyers to our members. Home\$tart funds have been reserved for buyers and members are enrolling them to the program.
 - NMTC Partnership. Our partner, the National Development Council, received an allocation of New Markets Tax Credits during the second quarter and we are jointly looking for borrowers and members to participate in this program.
- Develop an initiative to increase the homeownership rate among minority households in the Seattle Bank's region, particularly in urban communities. Look at the issue of homeownership among minority households earning more than 80 percent of area median income. Expand the definition of minority to include African American, Native, Hispanic and other households as appropriate. Explore partnership opportunities with the Urban League in Seattle, Tacoma and Portland. No specific, structured initiative has been developed yet. Initial feasibility analysis has been conducted during 2003 to determine the legal implications of collecting minority data and/or targeting minorities for grant resources. Conclusive results were not determined in time to implement data collection or a new program in 2003. A pilot program is being recommended to the Advisory Council and Board of Directors this month to target lower income buyers, with the intent of minorities being included in this pool.

MARKET RESEARCH

During 2003, the Seattle Bank commissioned a survey of 1,800 members and community developers to determine the unmet credit needs for affordable housing in our market. 45 members and 168 community partners responded to the survey. The urban/rural profile of the respondents closely matched the profile of all bank members and community partners.

The results of the survey are as follows:

- 38% primarily serve rural, 24% primarily serve urban and 41% serve both.
- 65% primarily serve the 50% AMI group, 69% primarily serve the 50% - 80% AMI group and 13% serve the greater than 80% AMI group.
- The top three affordable housing needs in the 12th District include the following:
 - Affordable homes for first-time homebuyers.
 - Affordable rental housing plus services for households with special needs.
 - Affordable rental housing for large families.

During 2003, bank staff attempted to address the issues and concerns raised by the survey. In particular staff:

- Recommended revised AHP scoring criteria for 2004 to be more responsive to unmet credit needs.
- Continued to promote CIP/EDF advances while encouraging members to use those advances for longer-term funding (60 months or more).
- Worked with The Enterprise Foundation to identify a land banking opportunity in Salt Lake City, UT and Portland, OR.
- Worked with the National Development Council to market a program combining New Market Tax Credits (NMTC) with advances.
- Purchased a NAHASDA Title VI guaranteed loan.
- Purchase 12 mortgages from a housing authority as part of a partnership to increase home ownership through an FHA lease to own program.
- Planned a series of regional seminars on accessing and using the bank's community investment products during the first quarter of 2003.

COMMUNITY GOALS 2004

QUANTITATIVE GOALS 2004

The quantitative community investment goals for the Federal Home Loan Bank of Seattle in 2004 are:

- Fund at least 15 community-based economic development projects with the Economic Development Fund.
- Provide at least \$25 million in new CIP advances to support affordable multifamily rental projects.
- Increase the dollars invested in the Access program by \$200,000 and commit all of the funds to qualified economic development projects.
- Increase the dollars invested in the Challenge Fund by \$100,000.
- Lend \$5 million from the CIP Smart Growth Fund.
- Execute three Title VI Loan Purchase Agreements.
- Lend \$5 million in advances to finance investment in NMTC initiative.

QUALITATIVE GOALS 2004

The qualitative community investment goals for the Federal Home Loan Bank of Seattle in 2004 are:

- Continue to implement the following programs: Pathways, Title VI Loan Purchase, A Home of Your Own, NMTC Partnership.
- Continue to modify and upgrade the AHP online application.
- Explore feasibility of implementing a set aside to target minority homeownership.
- Hire an additional Home\$tart staff person.
- Allocate 35% of AHP for Home\$tart, if approved by Advisory Council and Board of Directors.
- Determine feasibility of aligning Home\$tart with MPP.